HANCOCK COUNTY
MEMORIAL HOSPITAL

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2005 AND 2004

HANCOCK COUNTY MEMORIAL HOSPITAL
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HANCOCK COUNTY MEMORIAL HOSPITAL
BOARD OF TRUSTEES
YEAR ENDED JUNE 30, 2005

Name	Title	Term Expires
Mary Kopacek	Chairperson	2010
Alvin Denny	Vice-Chairperson/Treasurer	2008
Brian Cataldo	Secretary	2006
Bill Paulus	Member	2006
DeAnna Kelly	Member	2008
Rob Willms	Member	2010
Ron Eden	Member	2010

* *

Laura Zwiefel	Administrator

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Hancock County Memorial Hospital
Britt, Iowa

We have audited the accompanying financial statements of Hancock County Memorial Hospital as of June 30, 2005 and 2004, which collectively comprised HCMH's basic financial statements as listed in the table of contents. These financial statements are the responsibility of HCMH's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contain in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hancock County Memorial Hospital as of June 30, 2005 and 2004, and the changes in financial position and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 1, 2005 on our consideration of Hancock County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over the financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on page 3 through page 9 and budgetary comparison information on page 28 are not a required part of the basic financial statements, but is supplementary information required by the U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentations of the required supplementary information. However, we did not audit the information and express no opinion on it.

Larson, Allen, Weishair & Co., LLP | An Independent Member of Baker Tilly International

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hancock County Memorial Hospital's basic financial statements. The other supplementary information from pages 29 to 35 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical data contained in the schedule of statistics on page 36 has been summarized from HCMH's records and was not subjected to such audit procedures. Accordingly, we express no opinion on such data.

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 1, 2005

This section of Hancock County Memorial Hospital's (HCMH) annual audited financial report represents management's discussion and analysis of HCMH's financial performance during the fiscal year ended June 30, 2005. The analysis will focus on HCMH's financial performance as a whole. Please read it in conjunction with the audited financial report.

Using This Annual Report

The June 30, 2005 and June 30, 2004 financial report includes the following audited financial statements:

- Balance Sheets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows
- Notes to Financial Statements
- Required Supplementary Information
- Other Supplementary Information

Financial Highlights

- HCMH's total assets increased by $778,119 or 6.0% in 2005 and increased by $442,436 or 3.5% in 2004.
- HCMH's net assets increased in each of the last two years with assets increased by $745,161 or 9.6% in 2005 and increased by $468,685 or 6.4% in 2004.
- HCMH reported negative operating income of ($137,753) in 2005 and ($355,369) in 2004.

The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Assets

These financial statements report information about HCMH using Governmental Accounting Standards Board (GASB) accounting principles. The balance sheet is a statement of financial position. It includes all of HCMH's assets and liabilities and provides information about the amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). Revenue and Expense are reflected for the current and previous year on the Statements of Revenues, Expenses, and Changes in Net Assets. This statement shows the results of HCMH's operations. The last financial statement is the Statement of Cash Flow. The cash flow essentially reflects the movement of money in and out of HCMH that determines HCMH's solvency. It is divided into cash flows (in or out) from operating, non-capital financing, capital and related financing, and investing activities.

Also supporting, supplementary information to the above statements is provided in:

- Schedules of Net Patient Service Revenues
- Schedules of Adjustments to Net Patient Service Revenues and Other Revenues
- Schedules of Operating Expenses
- Schedules of Aged Analysis of Accounting Receivable from Patients and Allowance for Doubtful Accounts
- Schedules of Inventories and Prepaid Expenses
- Schedule of Comparative Statistics

HCMH's accounting policies changed at the end of FY2005, when minor equipment was moved to the supply line detail, instead of facility costs to match other network hospitals.

Financial Analysis of HCMH

The information from the Balance Sheets, Statements of Revenues, Expenses & Changes in Net Assets, and the Statements of Cash Flows has been summarized in the following tables. Tables 1 and 2 report on the net assets of HCMH and the changes in them. Increases or decreases in net assets are one indicator of whether or not HCMH's financial health is improving. Other non-financial factors can also have an effect on HCMH's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third party payers, as well as, changes in the economic environment of Hancock County and the surrounding areas.

Table 1: Assets, Liabilities, and Net Assets

	2005	2004	2003
Assets:			
Current Assets	$ 3,490,683	$ 3,143,175	$ 2,589,747
Noncurrent Cash and Investments	2,594,083	2,162,509	2,010,024
Capital Assets, Net	6,241,559	6,194,089	6,607,074
Succeeding Year Property Tax Receivable	778,525	778,525	755,900
Other Assets	613,696	662,129	535,246
Total Assets	$ 13,718,546	$ 12,940,427	$ 12,497,991
Liabilities:			
Total Current Liabilities	$ 1,311,086	$ 1,105,173	$ 1,506,207
Long-Term Debt (Less Current Maturities)	3,087,413	3,260,368	2,908,208
Deferred Revenue from Succeeding Year Property Tax Receivable	778,525	778,525	755,900
Total Liabilities	5,177,024	5,144,066	5,170,315
Net Assets:			
Invested in Capital Assets Net of Related Debt	2,909,628	2,704,514	2,900,866
Restricted:			
Under Bond Agreement	287,216	261,593	230,927
Specific Purpose Fund	65,065	64,449	64,401
Foundation Fund	28,623	32,668	38,013
Plant Replacement and Expansion Funds	108,130	113,162	109,761
Unrestricted	5,142,860	4,619,975	3,983,708
Total Net Assets	8,541,522	7,796,361	7,327,676
Total Liabilities and Net Assets	$ 13,718,546	$ 12,940,427	$ 12,497,991

Asset categories changing significantly during 2005 and 2004 included Cash and Cash Equivalents, and Capital Assets, Net. Current Assets increased by $347,508 or 11.1% in 2005 and $553,428 or 21.4% in 2004. Capital Assets increased by $47,470 or 0.8% in 2005 and decreased by $412,985 or 6.3% in 2004.

The current ratio (current assets divided by current liabilities) for 2005 was 2.7 and 2004 was 2.8. It is a measure of liquidity, providing an indication of HCMH's ability to pay current liabilities; a high ratio number is preferred.

FINANCIAL ANALYSIS OF HCMH (CONTINUED)

Table 2 summarizes information from the Statements of Revenues, Expenses and Changes in Net Assets.

Table 2: Statement of Revenues, Expenses & Changes in Net Assets

	2005	2004	2003
Net Patient Service Revenue	$ 8,392,566	$ 7,427,339	$ 7,117,871
Other Operating Revenue	201,284	314,741	193,321
Total Revenue	8,593,850	7,742,080	7,311,192
Operating Expenses			
Salaries and Wages	2,856,767	2,731,182	2,656,206
Employee Benefits	673,149	688,537	579,778
Professional Fees	2,362,943	2,147,047	2,006,315
Utilities	182,884	176,858	166,402
Management, Legal, and Accounting Fees	364,213	349,956	333,326
Insurance	79,363	75,835	75,445
Supplies and Miscellaneous	1,427,314	1,146,135	1,149,170
Depreciation	582,436	575,138	506,269
Interest and Amortization	202,534	206,761	159,164
Total Operating Expenses	8,731,603	8,097,449	7,632,075
Operating Income	(137,753)	(355,369)	(320,883)
Non-Operating Revenues (Expenses)			
Tax Apportionments	778,845	756,321	702,490
Interest Income	62,450	43,841	55,720
Rental Income	14,551	16,393	15,587
Contributions	6,998	35,570	-
Gain (Loss) on Sale of Property and Equipment	(3,190)	2,266	(22,479)
Miscellaneous Income (Expense)	(26,859)	(55,998)	4,901
Non-Operating Revenues (Expenses)	832,795	798,393	756,219
Excess of Revenues over Expenses before Capital Grants and Contributions	695,042	443,024	435,336
Capital Grants and Contributions	50,119	36,560	46,017
Net Assets Released from Restrictions	-	(10,899)	(10,445)
Increase in Net Assets	745,161	468,685	470,908
Net Assets, Beginning of Year	7,796,361	7,327,676	6,856,768
Net Assets, End of Year	$ 8,541,522	$ 7,796,361	$ 7,327,676

Financial Analysis of HCMH (Continued)

Net patient service revenue made up 98% in 2005 and 96% in 2004 of HCMH's total operating revenue. To arrive at net patient service revenue contractual adjustments due to agreements with third party payors and provisions for bad debts have been made to gross patient service revenue. Table 3 below shows the contractual adjustments that were recognized:

Table 3: Net Patient Service Revenue and Contractual Adjustments

	2005	2004	2003
Total Patient Service Revenues	$ 11,493,019	$ 9,501,236	$ 8,952,668
Contractual Adjustments and Provisions for Bad Debt	3,100,453	2,073,897	1,834,797
Net Patient Service Revenue	$ 8,392,566	$ 7,427,339	$ 7,117,871
Contractual Adjustments as a Percent of Revenues	26.98%	21.83%	20.49%

Total operating expenses increased by $634,154 or 7.8% in 2005 and increased by $465,374 or 6.1% in 2004. The operating expenses are broken by department on the Schedules of Operating Expenses; please see pages 32-33 of the audited financial statements for this information.

- Contract Labor increased $300,243 or 18% due to replacing a full time physician at the Garner Family Practice clinic, adding a .5 FTE Internal Medicine physician at the Britt Medical Clinic and two part time Hospitalist position's with hours rotating through one Hospitalist position and one clinic position. Also, RN contract labor increased 95%, as the Med/Surg floor was short several RN's throughout the fiscal year. At the end of the fiscal year, we were still short one RN, but are hoping to fill those hours with current staff, until hiring is complete.

- Supplies increased $193,574 or 27% due to minor equipment moving to supply line detail instead of facility costs to match other network hospitals and grant expenditures. However, all grant expenses are covered by grant reimbursed allocated in Other Operating Revenue.

- Purchased Services increased by $65,991 or 7% due to increased costs for grant expenses. However, all grant expenses are covered by grant reimbursement, allocated in Other Operating Revenue.

Operating Income margin (total operating revenue less total operating expenses divided by total operating revenue) was ($137,753) or (1.6%) in 2005 compared to ($355,369) or (4.6%) in 2004.

Other Operating Revenue decreased $113,457 or 36% in FY2005 and increased by $121,420 or 62.8% in 2004. Table 4 shows the detail for this line item. Other Operating Revenue decreased mainly due to a decrease in grant reimbursement.

Table 4: Other Operating Revenue

	2005	2004	2003
Meals Sold	$ 116,174	$ 131,460	$ 129,684
Grant Revenues	61,516	138,936	18,652
First Call	-	-	3,655
Transfer from Specific Purpose Fund	-	10,898	10,445
Dietary Assessment and Consulting	3,139	2,893	1,818
Medical Records Transcripts	1,302	1,278	1,652
Miscellaneous	19,153	29,276	27,415
	$ 201,284	$ 314,741	$ 193,321

HOSPITAL STATISTICAL DATA

Table 5 shows HCMH's statistical data. In comparison, there is a direct correlation between utilization changes and revenue changes.

- Total patient days decreased by 128 or 6% in 2005 mainly in the SNF Swing Bed Self-Pay level, and increased by 30% from 2003 to 2004 mainly in the Acute and SNF Self-Pay level.
- Surgeries are 5.5% higher than 2004, while 2004 was 16% lower than 2003. Dr. Unger saw increasing referrals during 2005.
- OP Visits are 10% higher than 2004, while 2004 was 2% lower than 2003.
  PT referrals were down until a full time physical therapist was hired in June 2005.
- ER visits increased 8% from 2004 to 2005.
- Physician Clinic visits increased 1% from FY2004 to FY2005.

Table 5: Statistical Data

	2005	2004	2003
Patient Days			
Acute/Hospice	1,171	1,158	986
SNF Swing Bed/SNF Self Pay	946	1,087	742
Total	2,117	2,245	1,728
Admissions			
Acute/Hospice	346	355	321
SNF Swing Bed/SNF Self Pay	141	132	115
Total	487	487	436
Discharges			
Acute/Hospice	345	354	326
SNF Swing Bed/SNF Self Pay	139	131	115
Total	484	485	441
Average Length of Stay, Acute	4.3	3.1	3
Beds			
Acute and Swing	25	25	25
Occupancy Percentage			
Acute, Based on 25 Beds	19.9%	19.2%	17.1%
Swing, Based on 25 Beds	26.0%	29.7%	20.3%
Surgeries	400	379	453
OP Visits	15,665	14,238	14,536
ER Visits	1,684	1,556	1,419
Physician Clinic Visits	23,119	22,843	22,799

HOSPITAL STATISTICAL DATA (CONTINUED)

HCMH'S CASH FLOWS

HCMH's cash flows are consistent with the changes in operating income and financial performance, as discussed earlier.

Capital Assets

At June 30, 2005 HCMH had $6,241,559 invested in capital assets net of accumulated depreciation. In, 2005, HCMH expended $633,099 to purchase new equipment, including a $359,029 emergency generator and $97,900 for cataract equipment. In 2004 HCMH purchased new equipment costing $215,554.

Long Term Debt

Table 6 shows a summary of HCMH's long term debt outstanding.

Table 6: Long Term Debt

	2005	2004	2003
1st floor 1996 Revenue note	$ 760,000	$ 830,000	$ 895,000
1st floor 1996 GO Bond	430,000	470,000	510,000
1st floor1997 USDA GO Bond	721,080	763,282	803,480
GFP Clinic 2000 USDA Revenue note	412,455	431,197	449,070
2nd floor 2003 Farmers Trust loan	357,291	377,735	395,501
2nd floor 2003 USDA Revenue Note	561,530	581,833	-
Note Payable - Alcon Cataract Equip	89,575	-	-
Capital Lease Obligations	-	35,528	53,157
Total Long Term Debt	$ 3,331,931	$ 3,489,575	$ 3,106,208

- A Hospital Revenue note was issued in 1996 for $1,200,000 and GO bond of $700,000 to finance the 1st floor renovation of HCMH. These notes are payable through 2012 with interest coupons payable semi-annually on June 1 and December 1 at annual rates varying from 5.75% to 7% for HCMH revenue note and 4.0 to 5.5% for the GO bond. Hospital Revenue Note maturing on or after December 1, 2009 shall be subject to prior payment on December 1, 2008, or on any date thereafter at par plus accrued interest. A USDA GO bond was issued in 1997 for $1,000,000 also to finance the 1st floor renovation of HCMH. Monthly principal and interest payments are payable through December 2017 with an interest rate of 4.875%.

- A USDA Hospital Revenue note was issued in 2000 for $500,000 to finance the building of the GFP clinic in Garner. Monthly principal and interest payments are payable through July 2020 with an interest rate of 4.75%.

LONG TERM DEBT (CONTINUED)

- A loan through Farmers Trust and Savings Bank was issued in 2003 for $400,000 to finance the 2nd floor renovation of HCMH. Monthly principal and interest payments are payable through June 2017 with an interest rate of 6.63%.

- A USDA Revenue bond was issued in 2003 for $600,000 also to finance the 2nd floor renovation of HCMH. Monthly principal and interest payments are payable through August 2023 with an interest rate of 4.25%.A Note payable on Alcon cataract equipment is in effect with a balance $89,575 payable through 2010 and collateralized by the equipment.

Economic Factors

HCMH continued to improve its financial position during the current year. However, the current condition of the economy continues to be a concern for Hospital officials. Some of the realities that may potentially become challenges for HCMH are as follows:

- Expenses will continue to increase.
- Facilities at HCMH require constant maintenance and upkeep including HVAC structural improvements needed at the Britt Medical Clinic.
- Clinic information system technology needs continue to expand and current technology becomes outdated, presenting an ongoing challenge to maintain up-to-date technology at a reasonable cost.
- Potential changes in federal and state reimbursement for patient services.
- Potential professional labor shortages.

HCMH anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain HCMH's ability to react to unknown issues.

Contacting HCMH

The financial report is designed to provide our citizens, customers, and creditors with a general overview of HCMH's finances and to demonstrate HCMH's accountability for the money it receives. If you have any questions about this report or need additional information, please contact Hospital Administration at Hancock County Memorial Hospital, 532 1st St NW, Britt, IA, 50423.

HANCOCK COUNTY MEMORIAL HOSPITAL
BALANCE SHEETS
JUNE 30, 2005 AND 2004

ASSETS	2005	2004
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1,401,759	$ 1,410,783
Current Portion of Noncurrent Cash and Investments	60,000	55,000
Patient Receivables, Less Allowance for Uncollectible Accounts of $193,639 in 2005 and $191,795 in 2004	1,662,097	1,392,085
Other Receivables	161,467	57,888
Inventories	151,063	165,927
Prepaid Expenses	54,297	61,492
Total Current Assets	3,490,683	3,143,175
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Capital Improvements	2,165,049	1,745,637
Restricted Under Bond Agreement	287,216	261,593
Restricted by Specific Purpose Fund	65,065	64,449
Restricted Foundation Fund	28,623	32,668
Restricted Plant Replacement and Expansion Funds	108,130	113,162
Required for Current Liabilities	(60,000)	(55,000)
Net Assets Whose Use is Limited	2,594,083	2,162,509
CAPITAL ASSETS, NET	6,241,559	6,194,089
OTHER ASSETS	1,392,221	1,440,654
Total Assets	$ 13,718,546	$ 12,940,427

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	2005	2004
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 244,518	$ 229,207
Accounts Payable - Trade	191,377	216,126
Due To Affiliated Organization	172,284	161,527
Accrued Expenses	251,917	330,741
Third-Party Payor Settlement Payable	450,990	167,572
Total Current Liabilities	1,311,086	1,105,173
LONG-TERM DEBT, Less Current Maturities	3,087,413	3,260,368
DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE	778,525	778,525
Total Liabilities	5,177,024	5,144,066
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Invested in Capital Assets Net of Related Debt	2,909,628	2,704,514
Restricted :		
Under Bond Agreement	287,216	261,593
Specific Purpose Fund	65,065	64,449
Foundation Fund	28,623	32,668
Plant Replacement and Expansion Funds	108,130	113,162
Unrestricted	5,142,860	4,619,975
Total Net Assets	8,541,522	7,796,361
Total Liabilities and Net Assets	$ 13,718,546	$ 12,940,427

HANCOCK COUNTY MEMORIAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
OPERATING REVENUES		
Net Patient Service Revenues (Net of Provision for Bad Debts of $287,325 in 2005 and $237,531 in 2004	$ 8,392,566	$ 7,427,339
Other Revenue	201,284	314,741
Total Revenues	8,593,850	7,742,080
EXPENSES		
Salaries and Wages	2,856,767	2,731,182
Employee Benefits	673,149	688,537
Professional Fees	2,362,943	2,147,047
Utilities	182,884	176,858
Management, Legal, and Accounting Fees	364,213	349,956
Insurance	79,363	75,835
Supplies and Miscellaneous	1,427,314	1,146,135
Depreciation	582,436	575,138
Interest and Amortization	202,534	206,761
Total Expenses	8,731,603	8,097,449
OPERATING LOSS	(137,753)	(355,369)
NON-OPERATING GAINS (LOSSES)		
Tax Apportionments	778,845	756,321
Interest Income	62,450	43,841
Rental Income	14,551	16,393
Contributions	6,998	35,570
Gain (Loss) on Sale of Property and Equipment	(3,190)	2,266
Miscellaneous Income (Expense)	(26,859)	(55,998)
Net Non-Operating Gains	832,795	798,393
EXCESS OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	695,042	443,024
Capital Grants and Contributions	50,119	36,560
Net Assets Released from Restriction, Used for Operations	-	(10,899)
Increase in Net Assets	745,161	468,685
Net Assets Beginning of Year	7,796,361	7,327,676
Net Assets End of Year	$ 8,541,522	$ 7,796,361

See accompanying Notes to Financial Statements.

HANCOCK COUNTY MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	$ 8,405,972	$ 7,929,226
Cash Paid to Employees	(3,608,740)	(3,369,386)
Cash Paid to Suppliers	(4,408,650)	(3,873,950)
Cash Paid for Interest	(201,631)	(204,606)
Other Receipts and Payments, Net	146,138	112,470
Net Cash Provided by Operating Activities	333,089	593,754
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Restricted and Unrestricted Contributions and Grants	57,117	72,130
Tax Apportionments	778,845	756,321
Miscellaneous Income (Loss)	(26,859)	(55,998)
Rental Income	14,551	16,393
Net Cash Provided by Non-Capital Financing Activities	823,654	788,846
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Property and Equipment	(633,099)	(215,554)
Proceeds from Sale of Capital Assets	-	3,100
Payments on Long Term Debt	(255,544)	(216,633)
Proceeds from Issuance of Long Term Debt	97,000	600,000
Payments on Short Term Debt	-	(600,000)
Net Cash Used by Capital and Related Financing Activities	(791,643)	(429,087)
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in Noncurrent Cash and Investments	(436,574)	(154,985)
Interest Earned on Investments	62,450	43,841
Net Cash Used by Investing Activities	(374,124)	(111,144)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,024)	842,369
Cash and Cash Equivalents - Beginning	1,410,783	568,414
CASH AND CASH EQUIVALENTS - ENDING	$ 1,401,759	$ 1,410,783

See accompanying Notes to Financial Statements.

HANCOCK COUNTY MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
RECONCILICATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$ (137,753)	$ (355,369)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities		
Depreciation	582,436	575,138
Net Assets Released from Restrictions	-	(10,899)
Decrease (Increase) in -		
Patient Receivables	(270,012)	(100,584)
Accounts Receivable - Other	(103,579)	(45,631)
Inventories	14,864	11,437
Prepaid Expenses	7,195	(8,680)
Third Party Payor	-	434,899
Other Assets	48,433	(145,741)
Increase (Decrease) in -		
Accounts Payable	(24,749)	10,568
Accrued Expenses	(77,921)	50,333
Due to Affiliated Organization	10,757	10,711
Third Party Payor Settlements Payable	283,418	167,572
Net Cash Provided by Operating Activities	$ 333,089	$ 593,754

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hancock County Memorial Hospital (HCMH) is the county hospital of Hancock County, in the City of Britt, organized under Chapter 347, Code of Iowa. HCMH provides health care services under the name of Hancock County Memorial Hospital (HCMH) in accordance with a Master Affiliation Agreement - see Note 10. Services are provided primarily to residents of Hancock County and the surrounding area in north central Iowa.

A. Reporting Entity

For financial reporting purposes, HCMH has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. HCMH has also considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with HCMH are such that exclusion would cause HCMH's financial statements to be misleading or incomplete. The Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the organization to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the organization. Hancock County Memorial Hospital Foundation meets these criteria and is included in HCMH's financial statements under the provisions of GASB Statement No. 14. HCMH has no other component units, which meet the Governmental Accounting Standards Board criteria.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting the financial activity of its proprietary funds, HCMH applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Assets, Liabilities and Fund Balance

The following accounting policies are used in preparing the balance sheets:

Cash and Cash Equivalents - For purposes of the statement of cash flows, HCMH considers savings accounts and all other highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Patient Receivables - HCMH provides an allowance for uncollectible accounts based on the allowance method using management's judgment. Patients are not required to provide collateral for services rendered. Payment for services is required within 30 days of receipt of invoice or claim submitted. Accounts past due more than 60 days are turned over to collection agents. In addition, an allowance is estimated for other accounts based on historical experience of HCMH. At June 30, 2005 and 2004, the allowance for uncollectible accounts was $193,639 and $191,795, respectively.

Inventory - Inventory is valued at cost using the first-in, first-out method.

Investments – Investments are valued at purchase cost, or fair market value at the date of acquisition if donated. Investments consist of non-negotiable certificates of deposit.

Capital Assets, Net – Capital assets are stated on the basis of cost. The provisions for depreciation are computed on the straight-line basis over the estimated useful lives of the depreciable assets. Useful lives are assigned based on estimated useful lives of depreciable assets recommended by the American Hospital Association. Capital expenditures less than $5,000 are expensed as incurred. Capital expenditures of $5,000 or greater are capitalized and amortized over the life of the asset. It is HCMH's policy to include amortization expense on assets acquired under capital leases with depreciation on owned asset.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Fund Balance (Continued)

Property Tax Receivable – Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Noncurrent Cash and Investments – Noncurrent cash and investments include assets which are restricted by debt agreements and assets which have been restricted by contributors or grantors. Restricted funds are used to differentiate funds which are limited by the donor to specific uses from funds on which the donor places no restriction or which arise as a result of the operation of HCMH for its stated purposes. Resources set aside for Board-designated purposes are not considered to be restricted. Resources restricted by donors or grantors for specific operating purposes are reported in non-operating income to the extent expended within the period.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

Net Assets – Net assets of HCMH are classified into three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors or contributors external to HCMH. Unrestricted net assets are remaining net assets that do not meet the definition of invested capital assets net of related debt or restricted.

E. Contributions

From time to time HCMH receives contributions from individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Restricted Resources

When HCMH has both restricted and unrestricted resources available to finance a particular program, it is HCMH's policy to use restricted resources before unrestricted resources.

G. Operating Revenues and Expenses

HCMH's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange and non-exchange transactions associated with providing health care services – HCMH's principal activity. Nonexchange revenues, including interest income, taxes, grants and unrestricted contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

H. Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Medicare and Medicaid cost reports through June 30, 2003 have been audited and settled by the intermediary.

I. County Tax Apportionment

HCMH has received from Hancock County, county tax apportionments of $778,845 and $756,321 in 2005 and 2004, respectively. These funds have been used to finance expenditures for remodeling and major repairs as well as to finance current working capital requirements.

J. Charity Care

During 2005 HCMH implemented a charity care policy through which care is provided to patients who meet certain criteria under the policy without charge or at amounts less than its established rates. Because HCMH does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues. No patients applied for charity care during the year ended June 30, 2005.

NOTE 2 NET PATIENT SERVICE REVENUE

HCMH has agreements with third-party payors that provide for payments to HCMH at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare
HCMH has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicare beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. HCMH's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with HCMH.

Medicaid
HCMH has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicaid beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports.

Other
HCMH has also entered into payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

A summary of patient service revenues and contractual adjustments is as follows:

	2005	2004
Total Patient Service Revenue	$ 11,493,019	$ 9,501,236
Contractual Adjustments:		
Medicare	1,661,336	1,153,938
Medicaid	268,672	131,118
Provision for Bad Debt	287,325	237,531
Other	883,120	551,310
Total Contractual Adjustments and Bad Debts	3,100,453	2,073,897
Net Patient Service Revenues	$ 8,392,566	$ 7,427,339

NOTE 3 PATIENT RECEIVABLES

Patient receivables reported as current assets by HCMH at June 30, 2005 and 2004 consisted of the following:

	2005	2004
Receivable from Patients and Their Insurance Carriers	$ 989,599	$ 1,010,489
Receivable from Medicare	834,637	554,617
Receivable from Medicaid	31,500	18,774
Total Patient Receivables	1,855,736	1,583,880
Less Allowance for Doubtful Accounts	(193,639)	(191,795)
Patient Receivables, Net	$ 1,662,097	$ 1,392,085

NOTE 4 DEPOSITS AND INVESTMENTS

HCMH's deposits at June 30, 2005 and 2004 were entirely covered by Federal depository insurance or the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

HCMH is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The carrying amount of deposits are included in HCMH's balance sheets as follows:

	2005	2004
Cash and Cash Equivalents	$ 1,401,759	$ 1,410,783
Noncurrent Cash and Investments		
Restricted Under Bond Agreement	287,216	261,593
Internally Designated for Capital Improvements	2,165,049	1,745,637
Restricted by Specific Purpose Fund	65,065	64,449
Restricted Foundation Fund	28,623	32,668
Restricted Plant Replacement and Expansion Funds	108,130	113,162
	$ 4,055,842	$ 3,628,292

NOTE 5 CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2005 and 2004 are as follows:

Capital Assets	June 30, 2004	Additions	(Retirements)	June 30, 2005
Land and Land Improvements	$ 412,192	$ -	$ -	$ 412,192
Building	5,465,027	-	-	5,465,027
Fixed Equipment	1,446,383	360,046	(20,130)	1,786,299
Major Movable Equipment	3,050,545	262,769	(32,162)	3,281,152
Construction in Progress	7,931	10,284	(5,731)	12,484
Totals	10,382,078	633,099	(58,023)	10,957,154
Accumulated Depreciation				
Land and Land Improvements	163,075	30,574	-	193,649
Building	1,837,420	197,941	-	2,035,361
Fixed Equipment	370,313	92,969	(20,109)	443,173
Major Movable Equipment	1,817,181	260,952	(34,721)	2,043,412
Totals	4,187,989	$ 582,436	$ (54,830)	4,715,595
	$ 6,194,089			$ 6,241,559

Capital Assets	June 30, 2003	Additions	(Retirements)	June 30, 2004
Land and Land Improvements	$ 406,794	$ 5,398	$ -	$ 412,192
Building	5,467,344	-	(2,317)	5,465,027
Fixed Equipment	1,449,371	1,000	(3,988)	1,446,383
Major Movable Equipment	2,874,911	237,910	(62,276)	3,050,545
Construction in Progress	82,949	15,428	(90,446)	7,931
Totals	10,281,369	259,736	(159,027)	10,382,078
Accumulated Depreciation				
Land Improvements	131,965	31,110	-	163,075
Building	1,619,603	217,817	-	1,837,420
Fixed Equipment	285,511	84,802	-	370,313
Major Movable Equipment	1,637,216	241,409	(61,444)	1,817,181
Totals	3,674,295	$ 575,138	$ (61,444)	4,187,989
	$ 6,607,074			$ 6,194,089

NOTE 6 OTHER ASSETS

A summary of the other assets held at June 30, 2005 and 2004 is as follows:

	2005	2004
Real Estate Held for Investment	$ 281,284	$ 281,284
Issuance Costs, Net	154,216	166,901
Notes Receivable	51,625	97,166
Succeeding Year Property Tax Receivable	778,525	778,525
Medical Records	-	600
Investment in Mobile Radiology	126,571	116,178
Total Other Assets	$ 1,392,221	$ 1,440,654

Real Estate Held For Investment - The real estate held for investment consists of 151 acres of farmland. The current value of $281,284 represents the original purchase price. At June 30, 2005 the market value is in excess of the carrying value.

Issuance Costs - Deferred financing costs are amortized over the period the obligation is outstanding using the interest method. Amortization of deferred financing costs is capitalized during the period of construction of capital assets.

Notes Receivable - The note receivable consists of an advance to a physician in order to establish a medical practice in Garner, Iowa. As of June 30, 1998, the physician had not established this practice, and as a result the note became due in full. During the year ended June 30, 1999, the physician signed a note payable as a result of a court settlement. Interest has been accrued, and current monthly payments have been deducted from the principal owed. A balloon payment is due in July 2005, however, the physician was called to active military duty, so a grace period has been granted for the repayment of the note until the physician returns from active duty.

Property Tax Receivable – The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in next fiscal year for the purposes set out in the budget for the next fiscal year.

Medical Records – Medical records represents consideration paid for these assets of a physician practice and is being amortized over five years. The assets became fully amortized in fiscal year 2005.

Investment in Mobile Radiology – The investment in Mobile Radiology represents 25% investment in a mobile radiology unit limited liability corporation. This investment is accounted for using the equity method of accounting.

NOTE 7 LONG-TERM DEBT

A schedule of changes in long-term debt for 2005 and 2004 is as follows:

	Balance July 1, 2004	Additions	(Payments)	Balance June 30, 2005	Amounts Due Within One Year
Hospital Revenue Note, Series A	$ 830,000	$ -	$ (70,000)	$ 760,000	75,000
Hospital General Obligation County Bonds	470,000	-	(40,000)	430,000	45,000
USDA - RECD Hospital General Obligation	763,282	-	(42,202)	721,080	44,263
USDA - Hospital Revenue Note #1	431,197	-	(18,742)	412,455	19,445
USDA - Hospital Revenue Note #2	581,833	-	(20,303)	561,530	22,991
Farmers Trust & Savings Bank	377,735	-	(20,444)	357,291	20,270
Note Payable - Alcon Laboratories	-	97,900	(8,325)	89,575	17,549
Obligations Under Capital Lease	35,528	-	(35,528)	-	-
Total Long-Term Debt	$ 3,489,575	$ 97,900	$ (255,544)	$ 3,331,931	$ 244,518

	Balance July 1, 2003	Additions	(Payments)	Balance June 30, 2004	Amounts Due Within One Year
Hospital Revenue Note, Series A	$ 895,000	$ -	$ (65,000)	$ 830,000	$ 70,000
Hospital General Obligation County Bonds	510,000	-	(40,000)	470,000	40,000
USDA - RECD Hospital General Obligation	803,480	-	(40,198)	763,282	42,161
USDA - Hospital Revenue Note #1	449,070	-	(17,873)	431,197	18,542
USDA - Hospital Revenue Note #2	-	600,000	(18,167)	581,833	20,305
Farmers Trust & Savings Bank	395,501	-	(17,766)	377,735	18,975
Obligations Under Capital Lease	53,157	-	(17,629)	35,528	19,224
Total Long-Term Debt	$ 3,106,208	$ 600,000	$ (216,633)	$ 3,489,575	$ 229,207

NOTE 7 LONG-TERM LIABILITIES (CONTINUED)

HCMH revenue note, series A requires semi-annual payments of principal and interest on June 1 and December 1, with interest at the rate of 5.75 to 7.00%. All debt maturing on or after December 1, 2009 shall be subject to prior payment on December 1, 2008, or on any date thereafter, at par plus accrued interest. Principal and interest payments are due through December 2012.

HCMH general obligation county bonds require semi-annual payments of principal and interest on June 1 and December 1, with interest at the rate of 4.00 to 5.50%. Principal and interest payments are due through December 2012.

USDA – RECD hospital general obligation bonds require monthly payments of principal and interest with interest at the rate of 4.875%. Principal and interest payments are due through December 2017.

USDA hospital revenue note #1 requires monthly payments of principal and interest with interest at the rate of 4.75%. Principal and interest payments are due through July 2020.

USDA hospital revenue note #2 requires monthly principal and interest payments with interest at the rate of 4.25%. Principal and interest payments are due through June 2023.

Farmers Trust and Savings Bank requires monthly payments of principal and interest with interest at the rate of 6.63%. Principal and interest payments are due through June 2017.

Alcon Laboratories requires monthly payments of principal and interest with interest at the rate of 7.00%. Principal and interest payments are due through December 2009. The note is collateralized by equipment.

HCMH leases certain equipment under capital lease arrangements. Leases require monthly payments of principal and interest at rates from 6.00 to 10.268%. Leases are secured by equipment. All capital lease obligations were fully repaid during 2005.

The bonds are payable solely and only from revenues and receipts of HCMH and do not constitute an indebtedness of the County. The notes are secured by HCMH building.

Total interest expense for the years ended June 30, 2005 and 2004 was $189,247 and $193,579, respectively.

NOTE 7 LONG-TERM LIABILITIES (CONTINUED)

Aggregate future payments of principal and interest on the long-term debt obligations are as follows:

Years Ending June 30:	Long-Term Debt	
	Principal	Interest
2006	$ 244,518	$ 178,303
2007	254,514	162,325
2008	271,569	147,467
2009	284,136	131,504
2010	290,276	114,757
2011-2015	1,273,701	324,522
2016-2020	589,823	82,663
2021-2025	123,394	7,940
	$ 3,331,931	$ 1,149,481

The following is the leased equipment by major class at June 30, 2005 and 2004:

	2005	2004
Equipment	$ 286,843	$ 286,843
Less Accumulated Depreciation	(227,251)	(212,210)
Net Property Under Capital Lease	$ 59,592	$ 74,633

NOTE 8 PENSION PLAN

HCMH contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and HCMH is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. HCMH's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were approximately $158,900, $162,500, and $148,000, respectively, equal to the required contributions for each year.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Hospital Risk Management

HCMH is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There has been no significant reduction in insurance coverage from the previous year in any of HCMH's policies. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Malpractice Insurance

HCMH has insurance coverage to provide protection for professional liability losses on a claims made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently will be uninsured.

Litigation

HCMH is involved in litigation arising in the normal course of business. In consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on HCMH's financial position or results of operations.

NOTE 10 RELATED ORGANIZATIONS

Master Affiliation Agreement

Hancock County Memorial Hospital (HCMH) has entered into a Master Affiliation Agreement with Mercy Medical Center – North Iowa to provide hospital, physician, and other health care services in Hancock County and the North Central Iowa region. As a part of the Master Affiliation Agreement, HCMH entered into a professional services agreement with Mercy Medical Center – North Iowa whereby Mercy Medical Center – North Iowa provides professional medical services. Expenses relating to the provision of these services amounted to $980,702 and $963,687 for the years ended June 30, 2005 and 2004.

Operating gains and losses from the operation of health care services under the Master Affiliation Agreement in Hancock County are shared equally in accordance to the formulas outlined in the Agreement. During 2005 and 2004, there were no payments due to either party under the terms of the agreement.

NOTE 10 RELATED ORGANIZATIONS (CONTINUED)

Management Services Agreement

HCMH entered into a contractual arrangement with Mercy Medical Center – North Iowa under which Mercy Medical Center – North Iowa provides administrative staff, management consultation, and other services to HCMH. The arrangement does not alter the authority or responsibility of the Board of Trustees of HCMH. Expenses for the administrative and management services received for the years ended June 30, 2005 and 2004 were $334,400 and $322,400, respectively.

Due to Affiliated Organization

As of June 30, 2005 and 2004, Hancock County Memorial Hospital's records reflect a due to Mercy Medical Center – North Iowa of $172,300 and $161,500, respectively, for the various services related to these agreements.

NOTE 11 DEFERRED COMPENSATION AGREEMENTS

HCMH has entered into deferred compensation agreements with certain employees, which provide that a portion of their compensation will be deferred, to be paid upon retirement or at specified dates. HCMH does not make any contributions under the agreements. The agreement indicates the amounts due the employees will be the amounts deferred plus or minus earnings or losses realized on the investments of the funds at the time payment is to be made.

On August 20, 1996, the provisions of the Internal Revenue Code section 457 were amended to enable plans to hold all assets and income of the plan in a trust for the exclusive benefit of participants and their beneficiaries. These assets were previously required to be held as property of HCMH. The Governmental Accounting Standards Board (GASB) issued Statement 32 in October 1997. GASB 32 is effective for the year ended June 30, 1999 or on the date (if earlier) that the plan changes its trust provisions. HCMH plan has been amended to hold the plan assets in trust for the plan participants and their beneficiaries.

The agreements are funded with insurance contracts, stated at the greater of cost or cash value. The fair market value of the plan was $267,967 and $224,430 at June 30, 2005 and 2004, respectively.

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REQUIRED SUPPLEMENTARY INFORMATION

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HANCOCK COUNTY MEMORIAL HOSPITAL
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
BUDGET AND ACTUAL (CASH BASIS)
YEAR ENDED JUNE 30, 2005

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Original Budget	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	$ 778,845	$ -	$ 778,845	$ 754,945	$ 23,900
Estimated Other Revenues/Receipts	8,697,919	58,450	8,756,369	9,049,830	(293,461)
	9,476,764	58,450	9,535,214	9,804,775	(269,561)
Expenses/Disbursements	8,731,603	376,061	9,107,664	9,244,351	136,687
Net	745,161	(317,611)	427,550	560,424	(132,874)
Transfers	-	-	-	-	-
Balance Beginning of Year	7,796,361	(4,168,069)	3,628,292	8,079,436	(4,451,144)
Balance End of Year	$ 8,541,522	$ (4,485,680)	$ 4,055,842	$ 8,639,860	$ (4,584,018)

NOTE 1 – BUDGETARY COMPARISON

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of RHSHC on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures. HCMH did not amend its original budget during the year.

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OTHER SUPPLEMENTARY INFORMATION

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUES
YEARS ENDED JUNE 30, 2005 AND 2004

	TOTAL	
	2005	2004
PATIENT CARE SERVICES		
Medical and Surgical	$ 1,045,003	$ 929,684
OTHER PROFESSIONAL SERVICES		
Operating Room	773,084	676,567
Recovery Room	203,741	187,887
Radiology	1,697,623	1,254,368
Nuclear Medicine	11,264	11,427
Laboratory	2,466,700	1,870,184
Blood	56,199	51,945
Respiratory Therapy	232,350	191,351
Physical Therapy	284,778	279,747
Occupational Therapy	57,301	70,406
Speech Therapy	8,818	13,076
Electrocardiology	156,865	123,829
Medical and Surgical Supplies	122,194	116,682
Pharmacy	651,645	592,779
Cardiac Rehabilitation	58,960	43,405
Diabetic Education	8,062	-
Massage Therapy	2,130	6,424
Britt Clinic	1,506,405	1,178,682
Garner Clinic	1,165,098	1,045,019
Wesley Clinic	140,425	152,759
Kanahwa Clinic	80,523	92,920
Emergency Room	762,986	595,462
Ambulance	865	16,633
Total	10,448,016	8,571,552
Patient Service Revenues	11,493,019	9,501,236
Less: Contractual Adjustments and Bad Debts	(3,100,453)	(2,073,897)
Net Patient Service Revenues	$ 8,392,566	$ 7,427,339

INPATIENT		OUTPATIENT	
2005	2004	2005	2004
$ 972,116	$ 896,896	$ 72,887	$ 32,788
11,882	30,963	761,202	645,604
1,168	4,225	202,573	183,662
165,172	171,755	1,532,451	1,082,613
-	-	11,264	11,427
577,673	342,329	1,889,027	1,527,855
46,071	21,961	10,128	29,984
151,014	155,151	81,336	36,200
41,794	44,355	242,984	235,392
29,342	25,528	27,959	44,878
8,095	11,797	723	1,279
27,277	25,114	129,588	98,715
19,598	17,562	102,596	99,120
433,299	359,734	218,346	233,045
-	-	58,960	43,405
-	-	8,062	-
-	-	2,130	6,424
-	-	1,506,405	1,178,682
-	-	1,165,098	1,045,019
-	-	140,425	152,759
-	-	80,523	92,920
20,552	20,688	742,434	574,774
865	16,633	-	-
1,533,802	1,247,795	8,914,214	7,323,757
$ 2,505,918	$ 2,144,691	$ 8,987,101	$ 7,356,545

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HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF ADJUSTMENTS TO NET PATIENT SERVICE REVENUES AND OTHER REVENUES
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
ADJUSTMENTS TO PATIENT SERVICE REVENUE		
Contractual Adjustments - Medicare	$ 1,661,336	$ 1,153,938
Contractual Adjustments - Medicaid	268,672	131,118
Provision for Bad Debt	287,325	237,531
Other Allowances and Adjustments	883,120	551,310
Total Adjustments	$ 3,100,453	$ 2,073,897
OTHER REVENUES		
Meal Sold	$ 116,174	$ 131,460
Grant Revenues	61,516	138,936
Transfer From Specific Purpose Fund	-	10,898
Dietary Assessment and Consulting	3,139	2,893
Medical Records Transcripts	1,302	1,278
Miscellaneous	19,153	29,276
Total Other Revenues	$ 201,284	$ 314,741

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004

	TOTAL	
	2005	2004
Capital Related Costs - Building and Fixtures	$ 226,752	$ 230,970
Capital Related Costs - Moveable Equipment	355,684	344,168
Employee Benefits	673,149	688,537
Administrative and General	1,144,813	1,157,242
Operation of Plant	377,362	364,908
Laundry and Linen	23,529	23,735
Housekeeping	89,953	104,375
Dietary	261,576	253,752
Nursing Administration	101,579	51,987
Central Supply	75,001	64,780
Pharmacy	246,164	232,402
Medical Records	162,844	157,947
Social Service	8,925	9,109
Adults and Pediatrics	783,049	679,015
Operating Room	120,622	114,463
Anesthesiology	99,068	77,612
Radiology	550,735	447,761
Laboratory	441,335	416,594
Blood	25,681	22,567
Respiratory Therapy	24,174	19,972
Physical Therapy	136,442	147,087
Occupational Therapy	41,963	36,030
Speech Pathology	4,071	5,508
Electrocardiology	22,194	16,628
Cardiac Rehabilitation	15,915	11,756
Medical Supplies	38,434	49,241
Massage Therapy	2,518	7,599
Britt Clinic	1,125,953	842,771
Garner Clinic	734,589	664,679
Wesley Clinic	159,532	183,378
Kanawah Clinic	73,395	97,731
Emergency	381,635	350,551
Ambulance	433	15,833
Interest Expense	202,534	206,761
TOTAL	$ 8,731,603	$ 8,097,449

SALARIES		OTHER	
2005	2004	2005	2004
$ -	$ -	$ 226,752	$ 230,970
-	-	355,684	344,168
-	-	673,149	688,537
443,483	424,933	701,330	732,309
168,275	165,190	209,087	199,718
5,788	5,298	17,741	18,437
73,005	87,482	16,948	16,893
179,211	184,717	82,365	69,035
23,015	19,701	78,564	32,286
70,062	67,512	4,939	(2,732)
12,970	12,448	233,194	219,954
132,270	132,870	30,574	25,077
8,835	9,109	90	-
565,657	546,245	217,392	132,770
49,493	51,985	71,129	62,478
-	-	99,068	77,612
163,486	147,834	387,249	299,927
210,967	202,081	230,368	214,513
3,124	1,271	22,557	21,296
5,065	5,058	19,109	14,914
55,526	39,612	80,916	107,475
-	-	41,963	36,030
-	-	4,071	5,508
7,093	7,283	15,101	9,345
12,802	9,454	3,113	2,302
-	-	38,434	49,241
1,716	6,093	802	1,506
270,813	236,864	855,140	605,907
236,266	214,741	498,323	449,938
47,402	43,674	112,130	139,704
20,608	25,343	52,787	72,388
89,835	84,384	291,800	266,167
-	-	433	15,833
-	-	202,534	206,761
$ 2,856,767	$ 2,731,182	$ 5,874,836	$ 5,366,267

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF AGED ANALYSIS OF ACCOUNTING RECEIVABLE FROM PATIENT AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2005 AND 2004

Analysis of Aging Age of Accounts (by Date of Discharge)	2005 Amount	2005 Percent	2004 Amount	2004 Percent
1-30 days (Includes Patients in Hospital)	$ 1,047,111	48.68 %	$ 880,669	50.03 %
31-60 Days	442,966	20.59	325,050	18.47
61-90 Days	146,729	6.82	119,670	6.80
91 Days and Over	514,136	23.91	434,874	24.70
Total Accounts Receivable	2,150,942	100.00 %	1,760,263	100.00 %
ALLOWANCES				
Contractual -				
Medicare	248,286		77,540	
Medicaid	15,871		14,734	
Other	31,049		84,109	
Doubtful Accounts	193,639		191,795	
Net Accounts Receivable	$ 1,662,097		$ 1,392,085	
Net Patient Service Revenue Per Calendar Day (Excluding Provision for Doubtful Accounts)	$ 23,781		$ 21,000	
Days of net Revenue in net Accounts Receivable at Year End	70		66	

Analysis of Allowance for Doubtful Accounts

	2005 Amount	2005 Percent of Net Patient Service Revenue	2004 Amount	2004 Percent of Net Patient Service Revenue
Beginning Balance	$ 191,795		$ 176,896	
Add:				
Provision for Doubtful Accounts	287,325	3.31 %	237,531	3.10 %
Deduct:				
Accounts Written Off , Net	(285,481)	(3.29)%	(222,632)	(2.90)%
Ending Balance	$ 193,639		$ 191,795	

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
INVENTORIES		
General	$ 32,780	$ 33,426
Pharmacy	45,516	63,352
Central Supply	72,767	69,149
Total Inventories	$ 151,063	$ 165,927
PREPAID EXPENSES		
Insurance	$ 9,857	$ 16,767
Service Contracts/Other	36,862	37,456
Membership Dues	7,578	7,269
Total Prepaid Expenses	$ 54,297	$ 61,492

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULE OF COMPARATIVE STATISTICS
YEARS ENDED JUNE 30, 2005 AND 2004
(UNAUDITED)

	2005	2004
ACUTE		
Admissions	331	336
Discharges	331	335
Average Length of Stay	3.3	3.2
Patient Days	1,091	1,059
Occupancy Percentage	11.96%	11.61%
Beds	25	25
SWING BED		
Admissions	141	132
Discharges	139	131
Average Length of Stay	6.8	8.3
Patient Days	946	1,087

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Hancock County Memorial Hospital
Britt, Iowa

We have audited the financial statements of Hancock County Memorial Hospital as of and for the year ended June 30, 2005, which collectively comprise Hancock County Memorial Hospital's basic financial statements, and have issued our report thereon dated September 1, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hancock County Memorial Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hancock County Memorial Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to management of Hancock County Memorial Hospital in a separate letter dated September 1, 2005.

Comments involving statutory and other legal matters about HCMH's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of HCMH. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report is intended solely for the information and use of the officials, employees, and constituents of Hancock County Memorial Hospital and other parties to whom Hancock County Memorial Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specific parties.

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 1, 2005

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

05-1 Official Depository Banks

A resolution of official depository banks has been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

05-2 Certified Budget

Hospital disbursements for the year ended June 30, 2005 did not exceed amounts budgeted.

05-3 Questionable Expenditures

We noted no expenditures that we believe may constitute unlawful expenditures from public funds as defined in an Attorney General's opinion dated April 25, 1979.

05-4 Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Organization officials and/or employees were noted.

The Board of Trustees did not approve a change in the mileage reimbursement rate which occurred during fiscal 2005.

Recommendation

We recommend that the Board of Trustees approve the change in the mileage reimbursement rate.

Response

The Board of Trustees will approve the mileage reimbursement rate.

Conclusion
Response accepted

05-5 Business Transactions

There were no business transactions between HCMH and Hospital officials and/or employees.

05-6 Board Minutes

Board minutes were examined and appeared to give an accurate account of business transacted by the Board.

05-7 Deposits and Investments

We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and HCMH's investment policy.

05-8 Publication of Bills Allowed and Salaries

Chapter 374.13(15) of the Code of Iowa states "There shall be published quarterly in each of the official newspapers of the county as selected by the Board of Supervisors pursuant to section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category..."HCMH did publish a schedule of bills allowed and a schedule of salaries paid as required by the Code.

05-9 Chapter 28E Organization

HCMH has entered into a joint venture agreement under the provision of Chapter 28E of the Code of Iowa for the provision of ultrasound services. This joint venture has contracted for an audit under the provisions of Chapter 28E.